



2019/2020 FINAL BUDGET OF UMUZIWABANTU MUNICIPALITY

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2. MAYOR'S REPORT

SPEECH DELIVERED BY THE HONOURABLE MAYOR, CLLR D NCIKI ON TABLING THE DRAFT BUDGET FOR THE YEAR 2019/2020

Honourable Speaker;

Deputy Mayor;

Members of the Executive Committee;

Councillors;

Municipal Manager; and

Senior Managers

Honourable Speaker, It gives me great pleasure to stand in front of you to present the final Budget for the year 2019/2020. It is the budget that carries the hopes of the communities that we proudly serve. We are equally able to use the benefit of hindsight to plan and budget for better interventions in the budget year.

Today I am presenting to this council a budget for the year 2019/2020 of the Municipality as prescribed by the MFMA. Speaker this act requires that, in terms of section 24(1) of the MFMA the council must at least 30 days before the start of each year consider approval of the annual budget. In order for a municipality to comply with the subsection (1), the Mayor of the municipality must table the budget at a council meeting at least 31 May each year. It is for this background that I have to table this budget today.

An annual budget of the municipality must set out realistically anticipated revenue for the budget year and appropriate expenditure for the budget year under the different votes of the Municipality. Alignment of Integrated Development Plan with the budget is one of the critical undertakings that the current government has placed primary focus in the agenda. The reasoning behind is to ensure that scarce resources are optimally allocated. Speaker it is for this background that I am presenting the budget report.

The low economic growth that confronts South Africa provides major challenges to us as Local Government. Our financial situation is difficult, where we need to do more with less, but we have still produced a credible budget.

We are compelled to prioritise our spending better, implement our plans more effectively and make greater impact.



2.1 OPERATING REVENUE FRAMEWORK

Table 1: Overview of major revenue by items

	ADJUSTMENT BUDGET 2018/2019	FINAL BUDGET 2019/2020	
INCOME	2018/2019	2019/2020	DIFFERENCE
EQUITABLE SHARE	82,521,000.00	91,211,000.00	8,690,000.00
FMG	1,900,000.00	1,900,000.00	-
LIBRARY GRANT	1,591,000.00	1,686,000.00	95,000.00
EPWP	1,213,000.00	1,219,000.00	6,000.00
MIG	22,940,000.00	23,340,000.00	400,000.00
DISASTER GRANT	400,000.00	400,000.00	-
RATES	25,904,000.00	25,904,000.00	-
ELECTRICITY	36,170,000.00	40,776,000.00	4,606,000.00
REFUSE	2,382,000.00	2,506,000.00	124,000.00
TRAFFIC LICENCING	2,780,000.00	2,925,000.00	145,000.00
INTEREST ON INVESTMENT	13,265,000.00	13,587,000.00	322,000.00

Honourable Speaker; we can confirm without any equivocation that no effort was spared in making sure that compilation of this budget was executed in a manner which complies with the relevant provisions of the MFMA and budget related regulations. On the tariffs increase Honourable Speaker let me indicate that the tariff for the 2019/2020 have been determined at 0% on property rates which is lower than anticipated CPI, meaning that the municipality is actually caring for its community during this harsh economic times and place refuse removal at 5.2%, while 13.7% on electricity and 5.2% on all other services.

2.2 OPERATING EXPENDITURE FRAMEWORK

Table 2: Overview of expenditure per category

	ADJUSTMENT BUDGET 2018/2019	FINAL BUDGET 2019/2020	
EXPENDITURE	2018/2019	2019/2020	VARIANCE
SALARIES AND WAGES	72,447,560.00	77,938,856.00	5,491,296.00
BULK PURCHASES	32,961,931.00	37,270,055.00	4,308,124.00
REPAIRS AND MAINTENANCE	9,190,000.00	7,725,000.00	- 1,465,000.00
DEPRECIATION	15,604,000.00	8,923,000.00	- 6,681,000.00
GENERAL EXPENSES	51,960,139.00	58,195,366.00	6,235,227.00
TOTAL	182,163,630.00	190,052,277.00	7,888,647.00

Employee related costs have increased by 7%, the municipality has also seen a need to prioritise some new positions in this budget year 2019/2020. Remuneration for councillors has been taken into account the Upper limits of salaries and allowances for councillors. Bulk purchased has increased by 13.7% as per NERSA guidance. Repairs and maintenance has been decreased due to spending even though we were unable to adhere to the 8% that is

stipulated by Treasury, 4% of the total budget has been allocated to the asset maintenance. We acknowledge that this may not be sufficient to meet the demand on the ground as the municipal asset is ageing, due to the limited resources that we have, we have to allocate 4% to the repairs that will gradually grow. General expenses have also increased as per the MFMA treasury circular no.94 CPI.

Table 3: Overview of expenditure for special programmes

PROGRAMMES	ADJUSTMENT BUDGET 2018/2019	FINAL BUDGET 2019/2020	VARIANCE
PEOPLE WITH DISABILITIES	140,475.47	147,780.19	7,304.72
GENDER	266,188.02	280,029.80	13,841.78
ARTS AND CULTURE	167,031.07	175,716.69	8,685.62
HIV AND AIDS	150,000.00	157,800.00	7,800.00
SENIOR CITIZENS	314,934.40	331,310.99	16,376.59
YOUTH PROGRAMMES	630,000.00	473,400.00	- 156,600.00
SPORTS DEVELOPMENT	515,280.60	542,075.19	26,794.59

Umuziwabantu Municipality understands the socio dynamics of its population and has set aside funds to respond to the needs of the marginalized and vulnerable groups in our society such as women, children the elderly and people living with disabilities etc.

Overall total programmes have increased by 5.2% when compared to the adjustment budget.

2.3 CAPITAL EXPENDITURE FRAMEWORK

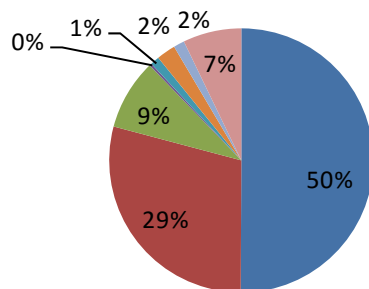
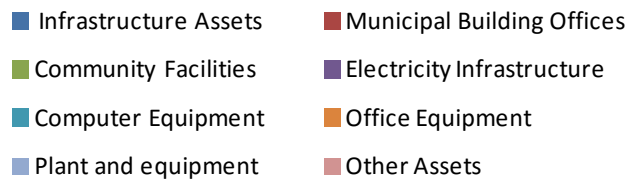
Honourable Speaker our capital expenditure patterns continue to reflect a consistent agenda to address backlogs in the provision of basic services.

Table 4: Overview of the capital budget per category

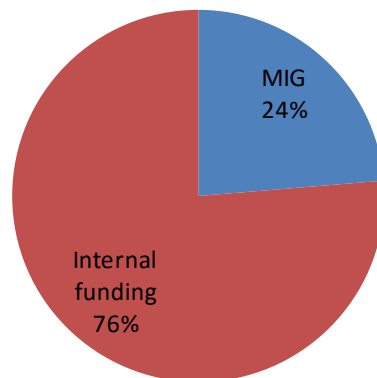
CAPITAL EXPENDITURE PER CATERGORY	
	FINAL BUDGET 2019/2020
Road Infrastructure Assets	49,340,000.00
Municipal Building Offices	28,627,114.98
Community Facilities	8,530,000.00
Electricity Infrastructure Assets	300,000.00
Computer Equipment	1,065,000.00
Office Equipment	2,300,000.00
Plant & Equipment	1,320,000.00
Vehicles & Specialised Vehicle	7,050,000.00
Total	98,532,114.98

NB: This breakdown does not correlate to table A5 due to the fact that in this table assets has been grouped per their asset category whereas in A5 they are grouped as per their departments or votes.

CAPEX BUDGET FOR 2019/2020



CAPITAL FUNDING SOURCES



2.4 Detailed capital expenditure

Accessible road infrastructure is a critical component of economic growth and social development in our communities. It provides the required impetus for the quicker movement of goods and services to the people. Community facilities are directly responding to the community basic and social needs. The Municipality has allocated R49 million towards infrastructure assets; R 300 000.00 towards Street Lights, R 29 million towards Municipal

Office Building and R8.5 million has been allocated towards Community Facilities which includes Landfill site, Cemetery and Sport field.

2.5 Funding sources for capital expenditure and budget remarks

Capital expenditure is funded by Municipal Infrastructure grant of R23.3 million own revenue of R 75.2 million which is coming from our cash backed reserves.

We are convinced that through our collective wisdom and unity of purpose; we will be able to achieve the impressive ambitions that are demonstrated in this budget.

Each of us must take individual and collective responsibility in making sure that the aspirations that we seek to fulfil through this budget are realised.

Honourable Speaker this budget and IDP is an expression of the aspirations of our people. On its own it cannot achieve the desired outcomes.

It requires the discipline and commitment of men and women who will be resolute in making sure that institution does not punch below its weight; and that all institutional efforts are gathered with the set norms and standards as well as the aspirations of our people.

Allow me Honourable Speaker to take this opportunity and thank the Council of Umuziwabantu Municipality for its on-going support and guidance to me and my colleagues in the Executive; as we endeavour to fulfil every mandate delegated to us by council.

Members of the portfolio committees and all other committees of council; we thank you for your commitment and courageous work ethic.

We further recognise the indispensable role played by our administrative personnel and stakeholders. We encourage you to work even harder in the upcoming financial year in order to produce the kind of audit outcomes that we can all be proud of.

Recommendation:

Honourable Speaker I table this report to Council for noting and further recommending that:

- Budget and related policies for 2019/2020 financial year be approved as per MFMA and budget regulation.

I THANK YOU



3. EXECUTIVE SUMMARY

Introduction

The budget is prepared to meet the Integrated Development Plan(IDP)priorities as well as the strategic objectives of Umuziwabantu Municipality. The Departments have been consulted to enhance the production of a credible balanced budget. The limited available funds require that priorities and strategic objectives should be carefully considered in the preparation and production of realistic credible balanced budget that is capable of being approved and implemented as tabled.

This 2019 to 2022 Tabled Medium Term Revenue and Expenditure Framework(MTREF) Budget Report deals with the operating budget and tariff proposals as well as the capital budget and funding sources proposal to ensure that Umuziwabantu Municipality renders services to their local community in a financially sustainable manner.

Past performance

Umuziwabantu Municipality has attained clean audit reports for two consecutive years and an Unqualified audit opinion for the 2017/2018 financial year.

Financial Sustainability

Financial sustainability over the long-term has to do with the maintenance of high priority expenditure programs, both operating and capital, to ensure program sustainability and desired quality of services to be rendered. There must also be rates and service charges stability and predictability in the overall rate burden by ensuring reasonable rates and service charges to fund programs.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Medium Term Expenditure Framework proposes a total budget of **R 289 million** for the 2019/2020 financial year .It appropriates a total operating expenditure of **R 190 million** and capital expenditure of **R 99 million**.

MAJOR CHANGES WHEN COMPARING DRAFT BUDGET WITH THE FINAL BUDGET ARE AS FOLLOWS:

- Grants has been adjusted as per the new Division of Revenue Act gazette
 - Service charge electricity revenue and bulk purchases has been increased by 4.29% from which it was increased by 9.41 to 13.7% as per NERSA guidance
 - Depreciation has been adjusted downwards to fund the deficit
 - Capital expenditure has been increase by R 27 million
-

The following table is a consolidated overview of the proposed 2017/2018 budget and medium term revenue and expenditure framework:

Table 1 Consolidated Overview of the 2017/2018

R Thousand	Adjustment s Budget 2018/2019	Budget year 2019/2020	Budget year 2020/2021	Budget year 2021/2022
Total Operating Revenue	198 379	288 614	303 795	321 075
Total Operating Expenditure	198 379	288 614	303 795	321 075
Surplus/Deficit for the year	0	0	0	0
Total Capital Expenditure	72 795	98 562	83 401	87 737

Total operating revenue has increased by 35% for the year 2019/2020 financial year when compared to the adjustments budget. The contributing factor for this increase is due to the grants allocations that has been Gazetted. For the two outer years, operational revenue has increased by 5% and 5% when compared to 2018/2019 financial year

Total operating expenditure for the 2019/2020 financial year has been appropriated at R289 million and translates into surplus of zero. When compared to the 2018/2019 Adjustments Budget, overall operational expenditure has increased by 45% when compared to the Adjustments budget. Contributing factor for this increase is due to the new post that has been budgeted for. For the outer years it has increased by 5% and 5% when compared to 2018/2019 financial year.

The capital budget of R99 million for 2018/2019 is 35% higher when compared to the adjustment budget. The contributing factor to this is building of Municipal Office and additional funding for the infrastructure assets. This is actually to assist in rendering service delivery to the needy community to fight against poverty that is affecting our community at large. Capital projects are funded by Municipal Infrastructure grant and internally generated funds, using our cash backed reserves. Due to an objection on the awarding of the Project some projects were moved to 2019/2020 financial year. Two new projects were also added as final inputs which also as an effect to the increase on Capital Budget. An additional amount of R4 million was allocated to Landfill Site.

Operating Revenue Framework

For Umuziwabantu Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding, hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy
- Efficient revenue management, which aims to ensure a 100 per cent annual collection rate for property rates and other key service charges,
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service

- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) MPRA,
- Increase ability to extend new services and recover costs
- The municipality's Indigent Policy and rendering of free basic services and
- Tariff policies of the Municipality

The following table is a summary of the 2017/2018 MTREF (classified by main revenue source):

Income by Source Table

Choose name from list - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand	1										
Revenue By Source											
Property rates	2	15,384	16,901	31,351	24,904	25,904	25,904	25,904	25,904	24,984	26,282
Service charges - electricity revenue	2	29,539	29,183	30,719	36,063	36,170	36,170	36,170	40,776	41,309	41,849
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	-	2,117	2,281	2,382	2,382	2,382	2,382	2,506	2,416	2,542
Rental of facilities and equipment		38	82	82	173	118	118	118	124	120	126
Interest earned - external investments		7,271	10,006	11,273	9,915	13,265	13,265	13,265	13,587	13,102	13,783
Interest earned - outstanding debtors						321	321	321	337	325	342
Dividends received						-	-	-	-	-	-
Fines, penalties and forfeits		359	456	15	890	827	827	827	871	840	884
Licences and permits		2,200	2,078	2,078	550	550	550	550	579	558	587
Agency services		-	-	-	2,230	2,230	2,230	2,230	2,346	2,263	2,380
Transfers and subsidies		82,571	77,431	86,094	98,239	87,675	87,675	87,675	96,416	100,987	107,348
Other revenue	2	12,379	10,952	8,511	1,676	997	997	997	1,161	5,356	5,723
Gains on disposal of PPE					-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		149,741	149,206	172,404	177,023	170,439	170,439	170,439	184,607	192,260	201,847

In line with the formats prescribed by Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus or deficit.

Transfer recognised-operational remain the largest revenue source, electricity service charges is the second, property rates is the third and fourth largest source is interest on investment and the fifth one is revenue from refuse removal. Municipality have been urged to review the tariffs of the items on the annual basis to ensure that they are cost reflective and market related. Umuziwabantu municipality has reviewed their tariffs charges as per the above statement.

Operating transfers and grants receipts

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipality to keep increases in rates, tariffs and other charges as low as possible. Municipality must justify in their budget documentation all increases in excess of CPI upper boundary of the South African Reserve Bank's inflation rate. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payments.

Property Rates

Property rates cover the costs of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process

National Treasury's MFMA Circular No.51, inter alia with the implementation of the Municipal Property Rates Act, with regulations issued by the Department of Co-operative Governance. These came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0.25:1

NB: The Municipality has taken noted Treasury comments, Revenue forgone has been budgeted for

- Free basic services has been budgeted for
- Service charges refuse and electricity has been rectified
- Fines, penalties, agency fees and other revenue has been addressed
- Under grants s18, the challenge is the template is not allowing us to type the relevant grant name

The following stipulations in the Property Rates are highlighted:

- The first R 15000 of the market value of property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA.
- 55% rebate will be granted to agriculture
- 100% rebate will be granted to registered indigents in terms of the Indigent Policy
- The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income.
- The applicant must submit proof of his/her age and identity and in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension
- The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place
- The property must be categorized as residential
- The general valuation roll will be effective as from 1 July 2017

Overall impact of tariff increases on households

Note that in all instances the overall impact of the tariff increases on household's bills has been kept to between 5 per cent as well as the increase in indigent households

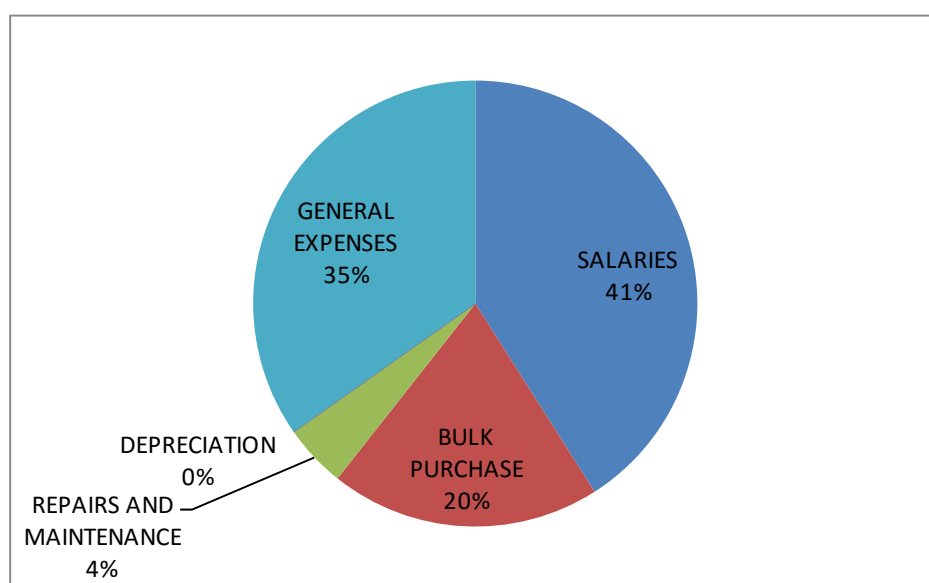
Operating Expenditure Framework

The expenditure framework for the 2019/2020 budget is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit
- Funding of the medium-term expenditure and revenue framework is informed by Section 18 and 19 of the MFMA,

- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand	1										
Expenditure By Type											
Employee related costs	2	39,757	44,493	49,767	62,852	62,296	62,296	62,296	67,114	67,228	71,932
Remuneration of councillors		6,174	6,784	8,569	10,152	10,152	10,152	10,152	10,825	10,620	11,364
Debt impairment	3	174	777	2,025	196	196	196	196	206	199	209
Depreciation & asset impairment	2	11,430	10,371	11,907	14,604	15,604	15,604	15,604	8,923	8,606	9,053
Finance charges		321	-	-	840	840	840	840	135	130	137
Bulk purchases	2	22,924	25,048	26,165	32,962	32,962	32,962	32,962	37,270	39,283	41,404
Other materials	8				1,000	1,700	1,700	1,700	1,868	1,802	1,895
Contracted services		2,084	2,583	3,723	3,759	5,524	5,524	5,524	10,655	10,288	10,821
Transfers and subsidies		327	1,337	1,812	6,559	7,559	7,559	7,559	7,692	8,107	8,526
Other expenditure	4, 5	33,699	41,534	45,344	51,427	45,331	45,331	45,331	45,365	55,493	58,607
Loss on disposal of PPE		339							-	-	-
Total Expenditure		117,229	132,927	149,312	184,351	182,164	182,164	182,164	190,052	201,755	213,948



Employee Related Costs

The budgeted allocation for employee related cost for the 2019/2020 financial year totals R78 million. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7 percent for the 2019/2020 financial year. Circular 71 states that employee related costs should not exceed 40% of the

total operating Budget therefore certain positions were frozen. An annual increase of 5.4 per cent has been included in the two outer years of the MTREF. The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998(Act 20 of 1998). When compared to the Draft Budget Other expenditure has reduced due to Indigent Support, Cost of Free Basic Services and Rebates have been moved to Transfers and Grants which will reflect the correct allocation of the nature of the expenditure.

The provision of debt impairment was determined based on an annual collection rate. For the 2019/2020 financial year this amount equates to R 185 thousand and escalates to R 206 thousand. While this expenditure is considered to be non-cash item, it informed the cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

NB:Municipality has taken note of Treasury Draft budget comments in relation to the salaries

- **Bulk purchases has been addressed as per NERSA guidance**

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the rate asset consumption. Budget appropriations in this regard for the depreciation total to R8.9 million for the 2019/2020 financial.

REPAIRS AND MAINTENANCE

Repairs and maintenance has also increased even though we were unable to adhere to the 8% that is stipulated by Treasury, 4% of the total budget has been allocated to the asset maintenance. We acknowledge that this may not be sufficient to meet the demand on the ground as the municipal asset is ageing, the contributing factor to this is due to the limited resources that we have, however the Municipality is working towards achieving the stipulated percentage.

Treasury comments has been noted

- **Under renewal:Municipality is currently focusing on the implementation of the new projects due to the limited resources that we have**

In line with repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure assets even though it's sitting at a low percent.

Finance charges have decreased by 83 % when compared to the adjustment budget. It's consists of lease payable to the photocopying machine and vehicles as well as bank charges for the Municipality.

Free Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy.

Budget Assumptions

Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:

- Protecting the poor from the worst impacts of the economic downturn
- Expediting spending on capital projects that are funded by conditional grants.
- Expediting spending on service delivery

In preparing the budget, the following priorities were taken into account:

- Deliver more and better services in a caring and efficient manner
- Hold political office bearers and public servants accountable

The challenge for the municipality is to do more within its existing little resource envelope

Over the next few years, the municipality must deliver more services- and deliver them more efficient-within a tight resources envelope. Achieving this objective requires a new way of working:

- The budget has been reprioritized so that money is moved from low-priority programmes to high priority programmes.

Investments

At present the Council does not have long term investments to fund the operating or capital expenditure. The investment portfolio for the Council is short term investments for conditional grants received from National Treasury and other organization of the state.

2.1 Explanatory notes to MBRR Table A1-Budget Summary for 2019/2020 Financial year.

- Table A1 is a budget summary and provides a concise overview of Umuziwabantu Local Municipality's budget from all the major financial perspectives (operating, capital expenditure, financial position, cash flow and MFMA funding compliance.
- The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
- Financial management reforms emphasises the importance of the municipal budget being funded. The Budget Summary provides the key information in this regard;
- Transfer recognised is reflected on the Financial Performance Budget
- Internally generated funds are financed from a combination of the operating surplus and accumulated cash-backed surplus from previous years. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.

- Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The municipality is committed to provide free basic services to the needy community. In addition, the municipality continues to make progress in addressing service delivery backlogs.

2.2 Explanatory notes to MBRR Table A2-Budgeted Financial Performance (revenue and expenditure by standard classification)

Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into its functional areas. Municipal revenue, operating expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports

2.3 Explanatory notes to MBRR Table A3-Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure. This means it is possible to present the operating surplus or deficit of a vote. The table shows the analysis of the surplus or deficit

2.4 Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

Total revenue is R185 million in 2019/2020 this excludes capital transfers as well as internal generated fund.

2. Revenue to be generated from property rates is R 26 million in 2019/2020 financial year and decreases to R25 million 2019/2020. Property rates have not increased when compared to the CPI.

Transfers recognised-operating includes the local government equitable share and other grants from national and provincial government. It is noted that the equitable shares remains a significant and high funding source for the municipality.

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

- Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote, capital expenditure by standard classification, and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
- The capital programme is funded by grants and internally generated funds
- Additional Projects as final inputs of the approved budget were also taken into account resulting in an increase to R98 million from R86 million

Explanatory notes to Table A6-Budgeted Financial Position

- Table A6 is consistent with international standards of good financial management practice, and improves understanding for councillors and management of the impact of the budget on the statement of financial position (balance sheet)
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version.
- Any movement on the budgeted financial performance or the capital budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalent at year end.
- Table SA3 provides a detailed analysis of the major components of a number of items, including
 - Call investments deposits
 - Consumer debtors
 - Property, plant and equipment
 - Trade and other payables
 - Provisions non current
 - Change in net assets,
 - Reserves
- The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets on the municipality belong to the community.

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

- The budgeted cash flow statement is the first measurement in determining if the budget is funded.
- It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

- The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
- In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
- The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be funded

- As part of the budgeting and planning guidelines that informed the compilation of the 2019/20 MTREF the end objective of the medium framework was to ensure the budget is funded aligned to section 18 of the MFMA.
- Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2019/2020 MTREF is funded

Explanatory notes to Table A9 - Asset Management

- Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
- National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of Property Plants and Equipments. The Municipality is working towards meeting both of these recommendations but the budget for Umuziwabantu is adequate to secure the ongoing health of the municipality's infrastructure.

Explanatory notes to Table A10 - Basic Service Delivery Measurement

- Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services. The Municipality continues to make good progress with the eradication of backlogs:
- The number of household registered for indigent in 201/2020 is expected to increase therefore entitled to receiving Free Basic Services, this is covered by municipality's equitable share

Part 2 – Supporting Documentation

1. Budget Assumptions

Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:

- Protecting the poor from the worst impacts of the economic downturn
- Expediting spending on capital projects that are funded by conditional grants.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2019/2020 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Umuziwabantu residents and businesses;
- The impact of municipal cost drivers;

2. Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation

of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of EXCO Members and Members of the Finance committee, the Municipal Manager, Senior Managers and Budget Manager of the municipality. Its chaired by the Madam Mayor.

The primary aim of the Budget Steering Committee is to ensure that;

- the process followed to compile the budget complies with legislation and good budget practices;
- there is proper alignment between the policy and service delivery priorities set out in the Umuziwabantu's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- the various spending priorities of the different municipal departments are properly evaluated and prioritized in the allocation of resources.

3. Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2016) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required IDP and budget time schedule on August 2018
Key dates applicable to the process were:

- **August 2018** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritization criteria for the compilation of the 2016/2017 MTREF;
 - **November 2018** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
 - **3 to 7 January 2019** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
 - **January 2019** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
 - **28 January 2019** - Council considers the 2018/19 Mid-year Review and Adjustments Budget;
 - **February 2019** - Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The final 2017/18 MTREF is revised accordingly;
 - **March 2019**- final Draft Annual Budget and MTREF 2019/2022 and draft IDP 2019/2020 tabled
-

- **April 2019**- Public is consulted on the final Annual Budget and MTREF 2019/2022
- **6 May 2019** - Closing date for written comments;
- **6 to 21 May 2019** – finalization of the 2019/20 IDP and 2019/20 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **28 May 2017**- Annual Budget and MTREF 2019/2022 is tabled for consideration for adoption

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council

4. IDP and Service Delivery and Budget Implementation Plan

Umuziwabantu's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

- Registration of community needs; Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

5. Financial Modelling and Key Planning Drivers

As part of the compilation of the 2017/18 MTREF, extensive financial modeling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2019/20 MTREF:

- Local growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2018/19 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars have been taken into consideration in the planning and prioritisation process.

6. Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

7. Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Umuziwabantu has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

8. Planning, budgeting and reporting cycle

The performance of the Umuziwabantu relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. Umuziwabantu municipality therefore has adopted one integrated performance management system which encompasses.

8.1 Performance indicators and benchmarks

a) Creditors Management

Umuziwabantu has managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favorable impact on suppliers' perceptions of risk of doing business with Umuziwabantu, which is expected to benefit the local community in the form of more competitive pricing of tenders, as suppliers compete for the Umuziwabantu business

b) Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of Umuziwabantu. Only registered indigents qualify for the free basic services.

9. Overview of budget related-policies

The Umuziwabantu Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2019/2020 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Umuziwabantu residents and businesses;
- The impact of municipal cost drivers;
- The increase in the cost of remuneration. Employee related costs MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement SALGBC concluded with the municipal workers unions were taken into account.

10. Overview of budget funding

Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term: Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. Umuziwabantu derives most of its operational revenue from property rates, operating and capital grants from organs of the state and other minor charges (such as building plan fees and traffic fines etc.)

11. Expenditure on allocations and grant programmes

It is estimated that a spending rate of at least 100 per cent is achieved on operating expenditure and 100 per cent on the capital programme for the 2017/18 MTREF of which performance has been factored into the cash flow budget.

The following table is a breakdown of allocations and grant programmes

Description	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand										
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		81,222	76,693	86,576	95,634	85,634	85,634	94,330	98,800	105,049
Local Government Equitable Share		76,322	73,739	79,670	82,521	82,521	82,521	91,211	96,900	103,149
Finance Management		1,800	1,825	1,900	1,900	1,900	1,900	1,900	1,900	1,900
EPWP Incentive		1,036	1,129	1,006	1,213	1,213	1,213	1,219		
Integrated National Electrification Programme				4,000	10,000					
Municipal Systems Improvement		930								
Other transfers/grants [insert description]		1,134								
Provincial Government:		723	738	583	2,205	1,641	1,641	1,686	1,787	1,899
		553	559	583	753	753	753	806	863	924
		170	179		838	838	838	880	924	975
Other transfers/grants [insert description]		-	-		556	50	50			
District Municipality:		184	-	317	400	400	400	400	400	400
[insert description]		184		317	400	400	400	400	400	400
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
Total Operating Transfers and Grants	5	82,129	77,431	87,476	98,239	87,675	87,675	96,416	100,987	107,348
Capital Transfers and Grants										
National Government:		-	22,275	23,685	22,940	27,940	27,940	23,340	24,447	26,039
Municipal Infrastructure Grant (MIG)			22,275	23,685	22,940	22,940	22,940	23,340	24,447	26,039
		-	-	-	5,000	5,000	5,000			
		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
Other capital transfers/grants [insert desc]		-	-	-	-	-	-	-	-	-
Provincial Government:		-	-	-	-	-	-	-	-	-
Other capital transfers/grants [insert description]		-	-	-	-	-	-	-	-	-
District Municipality:		-	-	-	-	-	-	-	-	-
[insert description]		-	-	-	-	-	-	-	-	-
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]		-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-
Total Capital Transfers and Grants	5	-	22,275	23,685	22,940	27,940	27,940	23,340	24,447	26,039
TOTAL RECEIPTS OF TRANSFERS & GRANTS		82,129	99,706	111,161	121,179	115,615	115,615	119,756	125,434	133,387

13. Councillors Allowances and Employee benefits

The following table is a breakdown of Councilors Allowances and Employee benefits for the year 2017/2018.

Choose name from list - Supporting Table SA22 Summary councillor and staff benefits

Summary of Employee and Councillor remuneration	Ref	2015/16	2016/17	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand		A	B	C	D	E	F	G	H	I
Councillors (Political Office Bearers plus Other)	1									
Basic Salaries and Wages		4,478	6,473	6,755	7,662	8,076	8,520	8,143	8,713	9,323
Pension and UIF Contributions										
Medical Aid Contributions										
Motor Vehicle Allowance		1,199		872	970	1,023	1,079	1,038	1,111	1,189
Cellphone Allowance		465	311	480	899	947	999	934	1,000	1,070
Housing Allowances										
Other benefits and allowances		470		538	621	654	690	709	758	812
Sub Total - Councillors		6,612	6,784	8,645	10,152	10,700	11,288	10,825	11,582	12,393
% increase	4		2.6%	27.4%	17.4%	5.4%	5.5%	(4.1%)	7.0%	7.0%
Senior Managers of the Municipality	2									
Basic Salaries and Wages		5,315	2,330	5,543	5,549	5,879	6,158	5,866	6,276	6,716
Pension and UIF Contributions		11	367	11	27	28	30	11	11	12
Medical Aid Contributions										
Overtime										
Performance Bonus			519							
Motor Vehicle Allowance	3		402	439	454	479	505	477	511	546
Cellphone Allowance	3			103	100	106	110	107	114	122
Housing Allowances	3									
Other benefits and allowances	3				1	1	2	1	1	1
Payments in lieu of leave				1						
Long service awards										
Post-retirement benefit obligations	6									
Sub Total - Senior Managers of Municipality		5,326	3,618	6,097	6,131	6,493	6,805	6,461	6,913	7,397
% increase	4		(32.1%)	68.5%	0.6%	5.9%	4.8%	(5.1%)	7.0%	7.0%
Other Municipal Staff										
Basic Salaries and Wages		26,848	25,590	34,163	38,620	40,392	42,351	38,692	41,400	44,298
Pension and UIF Contributions		3,176	4,884	4,125	4,635	4,891	5,134	4,984	5,332	5,706
Medical Aid Contributions		4,617	2,073	5,913	6,809	7,176	7,532	7,370	7,886	8,438
Overtime		2,791	4,971	6,173	2,623	2,861	3,013	2,798	2,993	3,203
Performance Bonus								2,824	3,022	3,233
Motor Vehicle Allowance	3	1,690	2,031	2,235	2,295	2,434	2,539	2,514	2,690	2,878
Cellphone Allowance	3	234	419	329	330	330	343	354	379	405
Housing Allowances	3	541	506	625	759	788	829	1,844	1,973	2,111
Other benefits and allowances	3	18	16	20	32	33	35	26	27	29
Payments in lieu of leave		473	384	540	618	645	677	662	708	757
Long service awards										
Post-retirement benefit obligations	6									
Sub Total - Other Municipal Staff		40,388	40,874	54,123	56,721	59,550	62,453	62,066	66,410	71,059

14.Monthly targets for revenue, expenditure& cash flow

The following table is a breakdown of Monthly targets for revenue, expenditure, cash flow for the year 2019/2020

Description	Ref	Budget Year 2019/20												Medium Term Revenue and Expenditure Framework		
		July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand																
Revenue By Source																
Property rates		11,916	1,271	1,270	1,270	1,274	1,274	1,271	1,271	1,271	1,271	1,271	1,271	25,904	24,984	26,282
Service charges - electricity revenue		3,301	3,301	3,301	3,301	3,301	3,301	3,301	3,301	3,301	3,301	3,301	4,460	40,776	41,309	41,849
Service charges - water revenue		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment		10	10	10	10	10	10	10	10	10	10	10	10	124	120	126
Interest earned - external investments		1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	13,587	13,102	13,783
Interest earned - outstanding debtors		28	28	28	28	28	28	28	28	28	28	28	28	337	325	342
Dividends received		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		73	73	73	73	73	73	73	73	73	73	73	73	871	840	884
Licences and permits		48	48	48	48	48	48	48	48	48	48	48	48	579	558	587
Agency services		196	196	196	196	196	196	196	196	196	196	196	196	2,346	2,263	2,380
Transfers and subsidies		8,027	8,027	8,027	8,027	8,027	8,027	8,027	8,027	8,027	8,027	8,027	8,122	96,416	100,987	107,348
Other revenue		83	83	83	83	83	83	83	83	83	83	83	244	1,161	5,356	5,723
Gains on disposal of PPE		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		24,814	14,170	14,169	14,169	14,173	14,173	14,170	14,170	14,170	14,170	14,170	18,090	184,607	192,260	201,847
Expenditure By Type																
Employee related costs		5,711	5,711	5,711	5,711	5,711	5,711	5,711	5,711	5,711	5,711	5,711	4,298	67,114	67,228	71,932
Remuneration of councillors		902	902	902	902	902	902	902	902	902	902	902	902	10,825	10,620	11,364
Debt impairment		17	17	17	17	17	17	17	17	17	17	17	17	206	199	209
Depreciation & asset impairment		744	744	744	744	744	744	744	744	744	744	744	744	8,923	8,606	9,053
Finance charges		11	11	11	11	11	11	11	11	11	11	11	11	135	130	137
Bulk purchases		3,005	3,005	3,005	3,005	3,005	3,005	3,005	3,005	3,005	3,005	3,005	4,212	37,270	39,283	41,404
Other materials		156	156	156	156	156	156	156	156	156	156	156	156	1,868	1,802	1,895
Contracted services		4,916	4,916	4,916	4,916	4,916	4,916	4,916	4,916	4,916	4,916	4,916	(43,425)	10,655	10,288	10,821
Transfers and subsidies		245	245	245	245	245	245	245	245	245	245	245	4,995	7,692	8,107	8,526
Other expenditure		-	-	-	-	-	-	-	-	-	-	-	45,365	45,365	55,493	58,607
Loss on disposal of PPE		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditure		15,707	15,707	15,707	15,707	15,707	15,707	15,707	15,707	15,707	15,707	15,707	17,275	190,052	201,755	213,948
Surplus/(Deficit)		9,107	(1,537)	(1,538)	(1,538)	(1,534)	(1,534)	(1,537)	(1,537)	(1,537)	(1,537)	(1,537)	815	(5,446)	(9,496)	(12,101)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		1,945	1,945	1,945	1,945	1,945	1,945	1,945	1,945	1,945	1,945	1,945	1,945	23,340	24,447	26,039
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers and subsidies - capital (in-kind - all)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions		11,052	408	407	407	411	411	408	408	408	408	408	2,760	17,894	14,951	13,938
Taxation		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Attributable to minorities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of surplus/ (deficit) of associate		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit)	1	11,052	408	407	407	411	411	408	408	408	408	408	2,760	17,894	14,951	13,938

15.Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

a. In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the website.

b. Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme and has employed interns undergoing training in various divisions of the Financial Services Department. Some of interns have been appointed permanently.

c. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

d. Audit Committee

An Audit Committee has been established and is fully functional.

e. Service Delivery and Implementation Plan

